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Railroad Retirement Maximum

The total amount of monthly annuities payable under the Railroad Retirement Act to an employee and spouse is limited to a maximum geared to the employee's average monthly earnings prior to retirement. Most retirees and spouses are not affected by this maximum on benefit payments, which was intended as a reasonable cap on family retirement benefits in relation to an employee's earnings. However, this provision may also affect retirees with diminished earnings, or no earnings, in the 10-year period ending with the year the employee's annuity begins. In cases where the maximum provision is applicable, it generally reduces benefits awarded to an employee's spouse.

The following questions and answers describe the application of this railroad retirement maximum provision.

1. What is the railroad retirement maximum based on?

The maximum limiting the total amount of railroad retirement benefits payable to an employee and spouse is based on the highest two years of the employee's creditable earnings in the 10-year period ending with the year the employee's annuity begins.

Any reductions required by the maximum are calculated based on the annuity amounts that would have been payable to an employee and spouse if both of them had been eligible for an annuity at the time of the employee's retirement. However, benefits are increased for subsequent cost-of-living adjustments, regardless of any maximum limitation applied at the time of the initial award.

The maximum increases every year as the amounts of creditable earnings rise. Therefore, an employee with high recent earnings who is affected by the maximum can still gain larger benefits by continuing work after his or her earliest eligibility date, so long as actual earnings also rise.

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In cases of no railroad retirement or social security covered earnings in the 10 years ending with the year the employee's annuity begins, the maximum would be $1,200. Examples of persons in this category would be those Canadian employees whose coverage under the Railroad Retirement Act ceased after December 31, 1982, and who have no subsequent creditable earnings under the Railroad Retirement and Social Security Acts. In addition, most individuals who left the rail industry, began working under the U.S. Civil Service before 1984 and elected to remain covered by the Civil Service Retirement System rather than the Federal Employees Retirement System, which includes social security coverage, would also be affected by this provision.

In some cases, the $1,200 or other relatively low maximum could substantially reduce the railroad retirement benefits payable.

4. If a reduction for the railroad retirement maximum is required, how is it applied to the railroad retirement annuities payable to the employee and spouse?

If the total benefits (excluding any vested dual benefits) payable to the employee and spouse before reduction for age, social security benefits or other factors exceed the maximum, they must be brought down to the maximum amount. This is done by first reducing the tier II portion of the spouse annuity. If the total family benefits still exceed the maximum, the railroad employee's supplemental annuity is reduced. Finally, if total benefits still exceed the maximum, the employee's tier II amount would be reduced.

If a spouse is not yet eligible for an annuity at the time of the employee's retirement, any required reduction would be applied when the spouse is actually awarded the annuity. If any further reductions for the maximum were also required, they would be applied to the employee's supplemental annuity and/or tier II benefits at that time. The only instance in which an employee's annuity would be reduced for the maximum prior to the actual award of a spouse annuity is when the employee's tier I, tier II and supplemental annuity alone exceed the individual maximum for that case.

Tier I employee and spouse benefits and any vested dual benefits payable are not subject to any reduction if the maximum applies.

5. How many persons currently retiring are affected by the railroad retirement maximum and to what degree?

Most individuals are not affected by this provision. In cases where a reduction is required on account of the railroad retirement maximum, it is usually limited to the tier II portion of the spouse annuity. Of the 9,100 spouse annuities awarded in fiscal year 1996, almost nine percent required reductions, averaging about $93.

Cases in which reductions due to the railroad retirement maximum must be made in the employee's supplemental annuity and/or tier II portion involved about two percent of awards.

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6. How can an employee get more information about this maximum provision?

Board field office personnel can provide rail employees with annuity estimates which would reflect any maximum provisions applicable, as well as information on other railroad retirement-related matters.

Most Board field offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday.

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2. How is the railroad retirement maximum generally calculated?

The first step in calculating the railroad retirement maximum is to determine an employee's "final average monthly compensation." This amount is determined by dividing by 24 the employee's total earnings up to the tier II taxable earnings limits for the two highest-earnings years out of the last 10 calendar years, including the year of retirement. Both railroad retirement and social security covered earnings are considered in this step of the railroad retirement maximum calculation. To illustrate this first step, assume that an employee retired in January 1997 with earnings of $50,000 in both 1995 and 1996, which were also his highest two years of creditable earnings. The tier II taxable earnings limits for 1995 and 1996 were $45,300 and $46,500, respectively. The employee's final average monthly compensation would be $3,825 (the sum of the 1995 and 1996 tier II earnings limits, which is $91,800, divided by 24).

The next step in the calculation is to also divide by 24 the tier I taxable earnings limit in the year the annuity begins. In this case, 1/24 of the tier I earnings limit in 1997 ($65,400) would be $2,725.

The maximum for this employee is equal to (a) his final average monthly compensation ($3,825) but only up to 1/24 of the tier I taxable earnings limit in the year the annuity begins ($2,725), plus (b) 80% of so much of his final average monthly compensation as exceeds 1/24 of the tier I taxable earnings limit. The amount of the final average monthly compensation in excess of $2,725 is $1,100, 80 percent of which is $880.

Thus, monthly benefits for this employee and spouse at the time of the initial award in January 1997 would be limited to $3,605 ($2,725 plus $880) but would be increased for the cost-of-living thereafter.

The maximum cannot be more than the final average monthly compensation and cannot be less than $1,200. However, reductions for early retirement and/or social security or certain other dual benefit entitlements are applied after any reductions for the maximum. Consequently, total benefits payable to the employee and spouse may be less than $1,200.

3. What are some examples of the maximum affecting an employee with lesser earnings, or no earnings, under either railroad retirement or social security coverage in the 10-year period up to retirement?

An example of a person with lesser earnings in the 10 years ending with the year the employee's annuity begins could be an employee who accepted a separation allowance and left the rail industry in 1987. Assume that he subsequently worked in a series of part-time social security covered jobs and retires in 1997. His highest two years of creditable earnings were 1995 and 1996, during which he earned a total of $36,000 for the two years, yielding a final average monthly compensation of $1,500. Since this amount is less than 1/24 of the 1997 tier I earnings maximum ($2,725), the maximum in this case would be the final average monthly compensation of $1,500.